

SAW Llano St. lse file

MINERALS, INC.

P. O. Box 1320 Phone 505 393-2153
HOBBS, NEW MEXICO 88240

G. W. EDWARDS
VICE PRESIDENT

October 19, 1979

E-9659 p15
tnks 1208500
10904

Mr. Donald L. Garey
Llano, Inc.
Post Office Box 1320
Hobbs, New Mexico 88240

Mr. Joe D. Reed
NMESCO Fuels, Inc.
Post Office Box 920
Hobbs, New Mexico 88240

Re: Farmout Agreement
Dated May 1, 1979
Grama Ridge Area

Gentlemen:

Minerals, Inc. has completed its Llano "34" State Com. No. 1 well located in Unit I, Section 34, T21S, R34E, Lea County, New Mexico, as a Morrow gas producer. In support, please find attached a copy of the completion reports as filed with the New Mexico Department of Energy and Minerals, Oil Conservation Division.

In accordance with terms of the referenced Farmout Agreement, it is respectfully requested that Llano and NMESCO Fuels provide Minerals with an Assignment of Operating Rights covering the E $\frac{1}{2}$ of Section 34, T21S, R34E, Lea County, New Mexico, which lands comprise the 320 acre proration unit dedicated to the Llano "34" State Com. No. 1 well. Said assignment should extend to 13,288' below the surface ~~or~~ 100' below the deepest depth drilled ~~(PPTD)~~. *34'*

Very truly yours, *Ok*

MINERALS, INC.

G. W. Edwards
G. W. Edwards

SLC:lg

Attachment

Minerals File No. MI10.41.79

12085-000
1090-P

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BOOK 365 PAGE 486

16603..

ASSIGNMENT OF OPERATING RIGHTS

WHEREAS, NMESCO Fuels, Inc., a wholly owned subsidiary of New Mexico Electric Service Company, and Llano, Inc., herein collectively called "Assignors", are the owners and holders of the New Mexico State Oil and Gas Leases bearing Serial Nos. E-9659 and K-3592 insofar as said leases cover the east half of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico, herein referred to as lands;

WHEREAS, Assignors desire to give and grant to Minerals, Inc. the rights to explore and develop the above described lands for oil and gas as to all depths thereunder from the surface down to and including a depth of 13,380 feet below the surface upon the terms and conditions hereinafter set forth:

NOW, THEREFORE, for a valuable consideration received, the sufficiency of which is hereby acknowledged, Assignors do give and grant to Minerals, Inc., herein called "Assignee", all leasehold rights from the surface to 13,380 feet below the surface (-9708 feet sub-sea depth) in the east half of said Section 34, held by Assignors under and by virtue of the above described oil and gas leases, together with the right and privilege to enter upon and take possession of the lands for the purpose of exploring, drilling for, developing and producing oil and gas and with the right to receive and retain all oil and gas which may be produced, saved and sold from the lands, subject, however, to the following terms and conditions:

1. Assignee shall hold Assignors harmless from all liability upon whatsoever kind or nature arising out of operations conducted by Assignee under this agreement.
2. There is excepted from this assignment and reserved unto Assignors, as an overriding royalty which shall be free and clear of all costs and expenses of whatsoever nature except applicable production, severance and other similar tax charges against or measured by the production accruing thereto, an amount equal to six and one-quarter percent of eight-eighths (6.25% of 8/8ths) of all oil and gas produced from the lands.
3. Within 30 days of such time as Assignee has recovered out of the production attributable to the working interest hereby assigned the cost of drilling, testing, completing and operating the Llano "34" State Com. No. 1 well, located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 34, T-21-S, R-34-E, Lea County, New Mexico, Assignee will so notify Assignors in writing. Within thirty (30) days after

receipt of the notice Assignors, or either of them, shall have the option to convert the overriding royalty interest reserved under paragraph 2 hereof, to their proportionate part of an undivided 25% working interest effective as of 7:00 o'clock A.M. on the first day of the month following Assignee's recovery of costs, the option to be exercised by written notice to Assignee. Assignors' failure to convert the overriding royalty interest into a working interest shall not terminate the overriding royalty interest, but such interest shall remain in force and effect. Upon receipt of the written notice Assignee will assign Assignors a 25% undivided interest in the leasehold operating rights in the assigned lands within the pro-ration unit for said well, and at that time Assignee and Assignors will execute a joint operating agreement with respect to said well using the AAPL Form 610. The interest assigned to Assignors shall be free and clear of all encumbrances or burdens created by Assignee.

4. Subject to the provisions of this agreement, Assignee shall have full control and supervision of all operations which Assignee may desire to conduct in exploring, testing and developing the lands and all such operations shall be at Assignee's sole cost, risk and expense. All of such operations shall be conducted by Assignee in accordance with the terms of the above described lease and with all applicable laws, rules and regulations, and Assignee shall not perform any act which might cause the loss or forfeiture of said lease.

5. Assignee agrees to use only that much of the surface of the above described land as may be necessary for the exploration, development and production of oil and gas from the lands and agrees to conduct such operations in such a manner as to interfere as little as possible with the operations of Assignors on such land.

6. Assignors agree to pay all rentals and minimum royalty which may become due to the State of New Mexico under the terms of the above described leases, but Assignors shall not be liable for its inadvertent failure to pay such rentals through clerical error or other oversight. Upon receipt of an invoice therefore, Assignee agrees to reimburse Assignors for one-half (1/2) of all rentals and minimum royalty paid by Assignors with respect to the above described land.

7. Assignee shall be responsible for the payment of all royalties and production taxes which may become due and payable under the terms of the above described leases on account of the production of oil and gas from the lands, as well as any and all applicable overriding royalties.

8. The accredited representatives of Assignors shall at all times have access to all wells drilled by Assignee on the above described land and to any information and records with respect thereto, and Assignee agrees to furnish Assignors such information as Assignors may request concerning such wells.

9. Assignors expressly reserve the right to approve any and all completion attempts in the Morrow Formation below the Clastics Marker on the subject lands as this interval is defined on the Gamma Ray Sonic log run in the GRM Unit No. 1 well (Shell-State GRA No. 1) between the depths of 12,722 feet and 13,208 feet (-9078 feet to -9564 feet sub-sea depths). Assignors, or either of them, further reserve the right at any point in time to demand that any completion be abandoned should subsequent data indicate possible communication with Assignors' Grama Ridge Morrow gas storage reservoir. Furthermore, nothing contained herein shall be construed such that Assignors are forced to relinquish any rights to extraneous or previously owned natural gas which has been injected and stored in the Morrow Formation below the Clastics Marker (as this interval is defined above) in Assignors' Grama Ridge Morrow gas storage reservoir.

10. Should Assignee elect to discontinue operations with respect to the rights herein, Assignee shall give Assignors notice of such election and Assignors jointly shall have 30 days, after receipt of such notice, to notify Assignee, in writing, of their election to accept re-assignment of the rights hereby assigned. If Assignors so elect, Assignee shall execute and deliver to Assignors, an assignment of the rights hereby assigned, and Assignors shall pay to Assignee the reasonable salvage value of any equipment and material in any well that Assignors shall elect to take over. Any well which Assignors may not elect to take over shall be plugged and abandoned at the sole cost, risk and expense of Assignee, in accordance with the rules and regulations of any governmental agency having jurisdiction.

11. Assignors, or either of them, reserve the option to purchase any gas, oil or hydrocarbons accruing to production from the properties described herein by meeting any bona fide offer for said gas, oil or hydrocarbons, if said gas, oil or hydrocarbons are not subject to existing contracts.

12. This assignment of operating rights shall be further subject to that certain Farmout Agreement dated May 1, 1979, between Assignee and Assignors.

13. This assignment of operating rights shall be further subject to that certain Gas Purchase Contract dated December 2, 1965, between Shell Oil Company, as Seller, and Phillips Petroleum Company, as Buyer.

14. All notices and reports required or permitted to be given hereunder shall be deemed to have been properly delivered when sent by United States mail, charges prepaid, to the following addresses:

Assignors:

Llano, Inc.
P. O. Box 1320
Hobbs, New Mexico 88240

NMESCO Fuels, Inc.
P. O. Box 920
Hobbs, New Mexico 88240

Assignee:

Minerals, Inc.
P. O. Box 1320
Hobbs, New Mexico 88240

EXECUTED this 25th day of October, 1979, but effective for all purposes as of the date of first runs.

ASSIGNORS

LLANO, INC.

By Donald L. Garey
Donald L. Garey, President

NMESCO FUELS, INC.

By J. G. Reed
J. G. Reed, President

ASSIGNEE

MINERALS, INC.

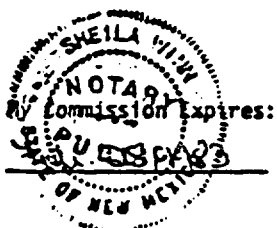
By Donald L. Garey
Donald L. Garey, President

THE STATE OF NEW MEXICO

COUNTY OF LEA

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The foregoing instrument was acknowledged before me this 25th day of October, 1979, by Donald L. Garey, President of LLANO, INC., on behalf of said corporation.



Sheila Wynn
Notary Public

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THE STATE OF NEW MEXICO

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COUNTY OF LEA

The foregoing instrument was acknowledged before me this 24th day of October, 1979, by J. D. Reed, President of NMESCO FUELS, INC., on behalf of said corporation.



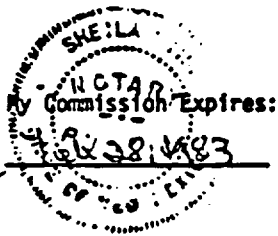
Josephine Lopez
Notary Public

THE STATE OF NEW MEXICO

SS

COUNTY OF LEA

The foregoing instrument was acknowledged before me this 25th day of October, 1979, by Donald L. Garey, President of MINERALS, INC., on behalf of said corporation.



Michelle Weiss
Notary Public

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

JAN 4 1980

1:30 P
and recorded in Book _____
Page _____
Jean Rice Smith County Clerk
By [Signature] Deputy

16603

